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SPECIAL REPORT

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CAN BOSTON SURVIVE THE FIRST-YEAR IMPACT OF PROPOSITION 2½?

First-year implementation of Chapter 580 of the Acts of 1980 (Proposition 2½) will force personnel and program cuts in Boston on a drastic scale that will cut severely into essential municipal services. The city faces a cutback that could total 40% of the work force in the regular municipal departments--up to 5,000 people. The net budget reduction required by Chapter 580 is about \$119 million or 48% of the discretionary portion of the city budget. Absorbing the added costs of unemployment compensation and inflation actually requires a real dollar cut of around \$170 million. This assessment is made by the Research Bureau after careful analysis of Boston's current year finances and reasonable assumptions about next year's requirements.

In the long run there can and should be some sort of state tax program to provide new revenue for the city to offset some of the cuts required by Chapter 580. However, that should not and will not come until there have been definite reforms in municipal operations all over the state, and especially here. Boston's government costs are far above those in comparable cities. The Mayor and School Committee must make a major effort to produce rational cuts in their operations for next year. State laws mandating programs and limiting management powers, especially in personnel management and collective bargaining, should be amended to allow municipalities to manage effectively in a time of shrinking resources.

After Fixed Costs - \$130 Million Discretionary Budget

This reduction in the levy and motor vehicle excise tax will force a revenue cut for the city totaling \$87 million in the coming year. The total general fund appropriation for this year is \$878 million. At first glance the cut is just 10%. That seems a reasonable goal which should be achievable without cutting too deeply into essential services. The chart below shows why basic services will have to be cut. Numbers are in millions of dollars.

FY 1981 Budget Appropriation	\$878.0*
Less FY 1981 Fixed Costs	553.4
	<u>\$324.6</u>
Less Revenue Based Expenditures (Hospital and Auditorium)	76.2
FY 1981 Variable Department Budget	<u>\$248.4</u>
Less "2½" Revenue Reduction - \$87.1	
Increase in Fixed Costs- 31.6	118.7
FY 1982 Estimated Variable Department Budget	<u>\$129.7</u>

Percentage Reduction: $\$118.7/\$248.4 = 47.8\%$

*Bureau's tax rate report number is lower since it is a net figure.

The severity of Chapter 580's impact on Boston is due to the very large percentage of Boston's budget that can be categorized as fixed costs. The revenue reductions and increases in fixed costs that must be absorbed shrink even further that small part of the budget over which the city has some real control. Of the original FY 1981 budget appropriation of \$878 million, \$553.4 million in fixed costs detailed below must be subtracted. The city's appropriation includes \$76 million of expenses for the Health & Hospitals Department and the Auditorium. Those are supported by revenues generated by the departments and thus must be treated similarly to fixed costs. These figures taken together and subtracted from the \$878 million produce a FY 1981 variable municipal budget of \$248.4 million. It is against that figure which the \$87 million in Chapter 580 cuts and an additional \$31 million increase in fixed costs have to be applied.

Thus rather than a cut of \$97 million, as suggested by the Mayor's Select Committee, the Bureau feels that Boston is facing a net budget reduction of \$118.7 million. That means the city's variable department budget this year of \$248.4 million will be reduced 48% to only \$130 million in FY 1982. In the end, next year's discretionary budget will be almost \$30 million less than the total for just the Police, Fire and Public Works Departments in the current fiscal year.

Fixed Cost Assumptions

What constitutes a fixed cost for the city of Boston? This is a key question in determining the impact of Chapter 580. The drastic cuts in programs and personnel envisioned here stem from reductions in the variable budgets because of what the Bureau feels are fixed expenses this year, plus our estimate of the increase in these costs next year. As shown in the chart below Boston's fixed costs this year total \$553.4 million and are estimated to increase by \$31.6 million next year.

Boston's Fixed Cost Schedule/FY 1981-1982 Comparison
(Numbers in \$ millions)

	FY 1981 Actual	FY 1982 Estimate
Debt & Interest	\$ 90.2	\$ 85.5
Pensions	86.3	91.0
State Assessments	56.1	60.2
Schools	210.3	210.3
Operating Deficit	25.0	25.0
Overlay (reserve + deficit)	47.3	80.0
Suffolk County	14.1	14.1
Health & Workmen's Comp.	19.3	14.7
Veterans	3.3	3.3
Other	1.5	.9
Total	<u>\$553.4</u>	<u>\$585.0</u>

A number of assumptions had to be made in calculating the fixed expense for next year. The issuance of bonds is expected to be reduced. State assessments will increase primarily due to an expected 10% increase for the MBTA. The drop in health and workmen's compensation costs anticipates substantial cuts in personnel.

Chapter 580 does not abolish the School Committee's limited fiscal autonomy, which allows the Committee to spend up to the previous year's appropriation. The \$210.3 million school budget for FY 1981 assumes the \$15 million in salary increases still in litigation will be decided in favor of the School Department. The same figure for FY 1982 assumes that court action later this year will not increase next year's spending base. Legislation has been filed to eliminate the School Committee's

fiscal autonomy. Even if passed, it is unlikely the school budget would be reduced lower than \$210.3 million. With the current school spending level at \$250 million, any plan to keep next year's budget at \$210 million is optimistic. However, as the school budget increases, the city's budget for other municipal departments will have to be cut accordingly.

Keeping the operating deficit at \$25 million assumes that the Mayor will successfully eliminate the projected city and county appropriation deficit of \$8-12 million by June 30. It also assumes that the projected school deficit of \$40 million will be reduced to \$25 million through efforts of the School Committee, the Mayor and the courts. The School Committee and the unions should renegotiate their contracts to allow the \$15 million set aside for raises to be applied to the deficit. The School Committee's special education court suit may produce an additional appropriation of \$7-10 million but funding this expense will be a problem. And any increase in the school deficit beyond \$25 million will cut into discretionary budgets next year.

A major problem for the city in the next year is the settlement of the "Tregor" related disproportionate assessment cases. The city's outstanding abatement liability will be known soon, once the Supreme Court decides the "French Case." The issue is whether pre-1980 disproportionate assessments will be lowered to the lowest residential class or the average of all residential classes. The city's liability will be between \$50 and \$100 million. The overlay of \$80 million provides for about \$40 million of that liability and assumes the city will not be successful in bonding the liability.

The Research Bureau figures on these fixed expense totals for next year are higher than those used by the city. The Bureau assumes that the city's plans to push off on the state some \$14 million in county costs or to transfer its share of mandated veterans benefits will not succeed. While there may be logic in both of those proposals, the Legislature is not likely to consider them in the first year of Chapter 580. Both expenses are considered fixed since substantial reductions do not appear to be legally possible.

The Personnel Impact

In such a labor-intensive operation as municipal government, substantial budget reductions must fall heavily in the personnel area. The White Administration set up a Select Committee to make recommendations on how the expected reductions should be shared by the various departments. In a thoughtful report, the Committee recommended steps to reduce current appropriations by \$97 million. Suggested reductions in operating departments totaled \$78.8 million. The balance was the reclassified fixed costs that have already been explained.

Using the Select Committee's recommended cuts of \$78.8 million in the operating departments, the Bureau estimated the number of employees that would have to be terminated by department. The Bureau's estimate is shown on the chart on the next page. The \$78.8 million net reduction would require a reduction of \$54.7 million in personnel costs based on the Bureau assumptions explained in the chart's footnotes. Using the average salary per department, about 3,229 employees would have to be terminated to produce a \$54.7 million cut. The requirement that each department absorb its unemployment expenses produces a ripple effect that makes further cuts necessary. Assuming an average unemployment cost of \$2,600 per employee, the original terminations would generate additional costs of \$8.4 million. That will have to be offset through additional cuts of 630 employees. Thus a reduction of \$54.7 million in personnel costs eventually requires a total cut of \$64.8 million and the termination of 3,859 employees.

Research Bureau Estimate of Personnel Impact of Proposed Expenditure Reductions
(Numbers in \$000)

Department	FY 1981 Budget	Select Committee's Net Recommended Reduction	8MRB Est. Personnel Share of Reduction+	No. of Employees*	Unemployment Compensation Cost**	Personnel Cuts to Fund Unemployment Costs	Added Personnel Cost Reduction
Law	\$ 1,474	\$ 147	\$ 119	5.6	\$ 14.6	1	\$ 15
City Record	45	5	4	.5	1.3		
Property Equilization	3,172	317	200	15.4	40.0	4	52
Assessing	1,667	417	388	25.8	67.1	5	75
Auditing	1,098	274	220	15.7	40.8	4	56
Treasury	822	206	122	8.7	22.6	2	28
Collecting	1,072	268	192	13.2	34.3	3	42
Police	69,468	17,367	15,665	783.2	2,036.3	120	2,400
Fire	55,007	13,752	12,734	578.8	1,504.9	80	1,760
Administrative	6,892	2,075	1,249	73.5	191.1	14	238
8RA	3,060	918	643	29.2	75.9	4	88
Public Works	34,883	10,465	2,658	204.4	531.4	50	650
Public Facilities	5,301	1,590	517	30.4	79.0	6	102
Mayor Agencies	7,778	2,722	2,313	136.0	353.6	25	425
City Council	479	168	147	8.6	22.4	2	34
City Clerk	247	86	80	4.4	11.4	1	18
Licensing Board	239	84	77	5.1	13.3	1	15
Library	9,291	3,252	2,686	199.0	517.4	46	621
Other	6,121	2,142	674	48.1	125.1	11	154
Housing Inspection	1,767	884	818	45.5	118.3	8	144
Real Property	6,423	3,211	1,075	82.7	215.0	21	273
Health & Hospitals	15,360	7,660	6,912	531.6	1,382.2	132	1,716
Traffic & Parking	3,948	1,974	1,263	90.2	234.5	21	294
Parks & Recreation	9,218	5,531	3,434	264.1	686.7	66	858
Election	887	532	462	28.8	74.9	6	96
Building	2,489	2,489	To be funded by own revenue				
Weights & Measures	259	259	To be funded by own revenue				
Totals	\$248,467	\$78,815	\$54,652	3,228.5	\$8,394.1	630	\$10,154
Select Committee's Reclassified Fixed Costs		18,200++ \$97,015					

+Based on the percent personnel represents of total budget.

*Based on average salary in each department.

**Based on \$2,600 per terminated employee. Maximum benefit is about \$4,300 at present.

++City's policy decision not to fund Suffolk County and Veterans Benefits in FY 1982 would cut fixed costs by \$17.4 million. The decision to require each department to absorb its own unemployment costs would eliminate the central account by \$800,000 bringing the total cut to \$97 million. The Bureau assumes that the city will be required to fund both County and Veterans costs next year and that the actual first year reduction will be \$118 million.

The reductions described here are necessary to cut \$78.8 million. However, the Bureau feels the true net reduction required in FY 1982 is closer to \$118 million. Using the same assumptions, a reduction of \$118 million would require a net cut in personnel costs of \$82.5 million. The above exercise assumed that all cuts in personnel costs would be achieved through termination of employees. Not considered was the possibility that some departments might finish the year with a deficit or surplus in their personnel accounts or that next year's budget might eliminate overtime and temporary employees. Therefore the larger personnel cut of \$82.5 million may not require a correspondingly larger reduction of employees. A cut somewhere between 4,000 and 5,000 employees or around 40% of the workforce will be necessary. The \$118 million is a net budget cut. The absorption of unemployment compensation and inflation costs would increase the actual dollar cut to about \$170 million.

Can Boston survive this dramatic a reduction in operations in the first year?

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